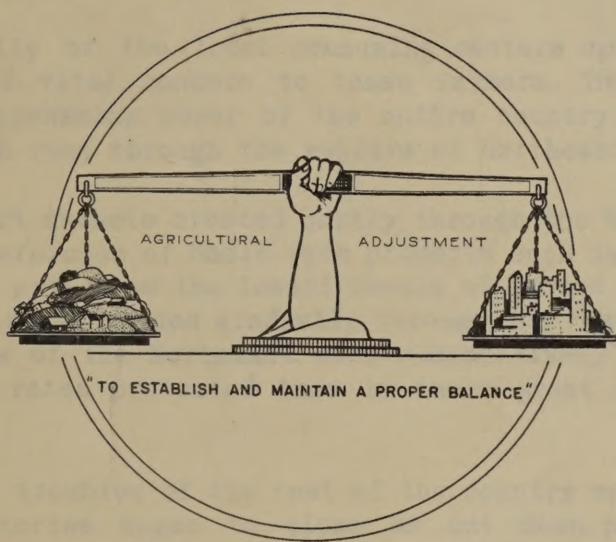
RELATION OF FARM PURCHASING POWER, GENERAL RECOVERY, AND NORTHEASTERN AGRICULTURE



UNITED STATES DEPARTMENT OF AGRICULTURE
AGRICULTURAL ADJUSTMENT ADMINISTRATION
WASHINGTON, D. C.

ISSUED NOVEMBER, 1934

NATIONAL FARM RECOVERY AND THE NORTHEAST

While farming conditions in the Northeastern States are generally regarded as quite different from those of the surplus-producing areas, it is not generally recognized that the welfare of agriculture in this area is inextricably related to the agricultural situation in general and to the national income.

Agriculture in the Northeastern States as a group ordinarily follows the crop and livestock trends of agriculture in the country as a whole. The conditions of both depend on the general level of consumer purchasing power, but agriculture in the Northeast is much more directly dependent on this factor because its products are marketed for domestic consumption in local markets. As factory payrolls in the Northeast increase, consumers have more money with which to buy local farm products.

The prosperity of the local consuming centers upon which Northeastern farmers rely, is of vital concern to these farmers. This prosperity is dependent upon the purchasing power of the entire country. National income is the solid core which runs through the welfare of Northeastern agriculture.

Loss of export markets created partly through the World War, and accumulation of immense surpluses of basic farm products such as cotton, wheat, hogs, and tobacco, forced prices to the lowest levels of record. The effects of loss of farm purchasing power spread gradually through the rest of the country. For a time, the farmers of the Northeast were comparatively well off, partly because high freight rates protected them in their great adjacent metropolitan markets.

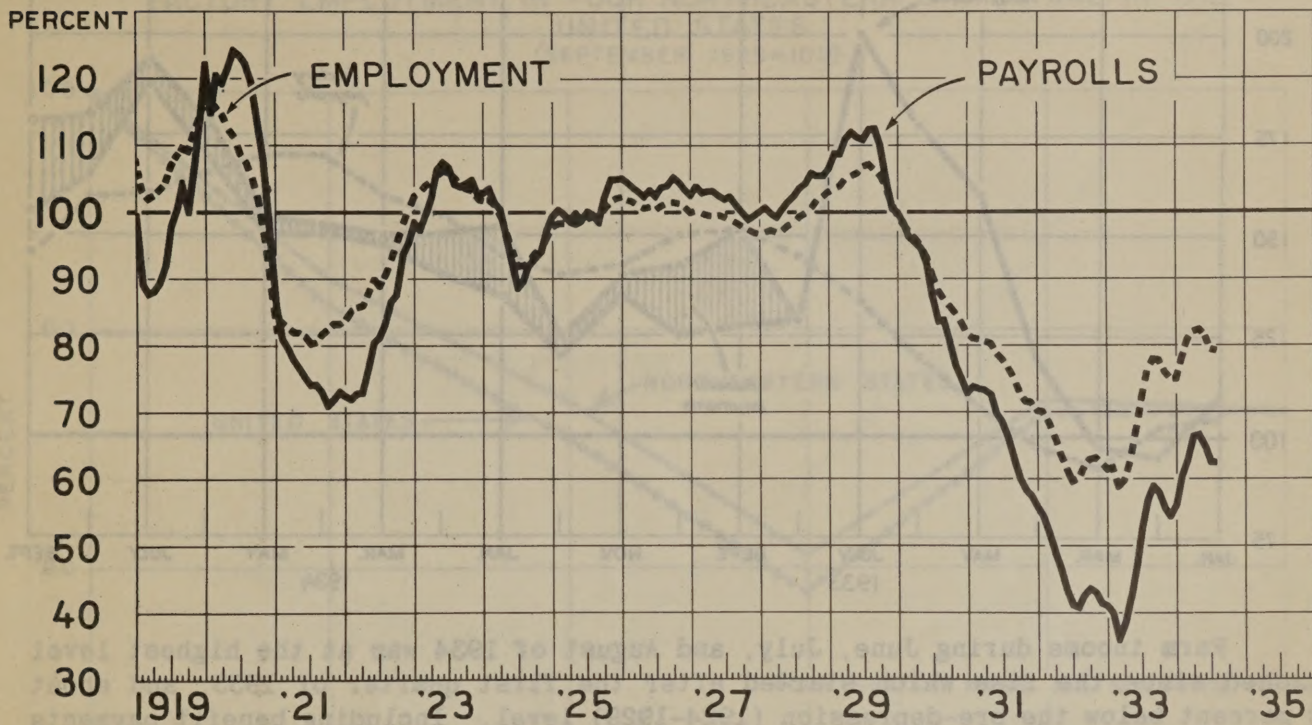
But when the troubles of the rest of the country spread to the cities of the East, and factories began to close or cut down production, increasing unemployment by millions, then the farmers of the Northeast were affected. Their markets suffered. Unemployed people, or people working only part time, had less money with which to buy farm products. Prices of Northeastern agricultural goods declined. In nine Northeastern States the farm value of crops dropped 50 percent from 1929 to 1932, as compared to a 60 percent decline for agriculture as a whole.

The Agricultural Adjustment Act was devised to restore the purchasing power of farmers, as an essential part of general recovery. The problem was national in scope.

Since the initiation of the Agricultural Adjustment Act and other recovery measures, farm prices and farm income have increased. This increased purchasing power of farmers is being reflected in increased urban employment as farmers regain their ability to buy the goods of mills and factories. The economic conditions of the Eastern business and industrial cities, which are Northeastern agriculture's important market, is thus linked closely with the farm recovery in the South and West and with national recovery. Some of the major economic relationships between the welfare of the Northeastern States and the agricultural and industrial conditions of the United States as a whole are presented in this publication.

INDUSTRIAL EMPLOYMENT AND PAYROLLS, 1919 – 1934

INDEX NUMBERS (1923-1925=100) ADJUSTED FOR SEASONAL VARIATION



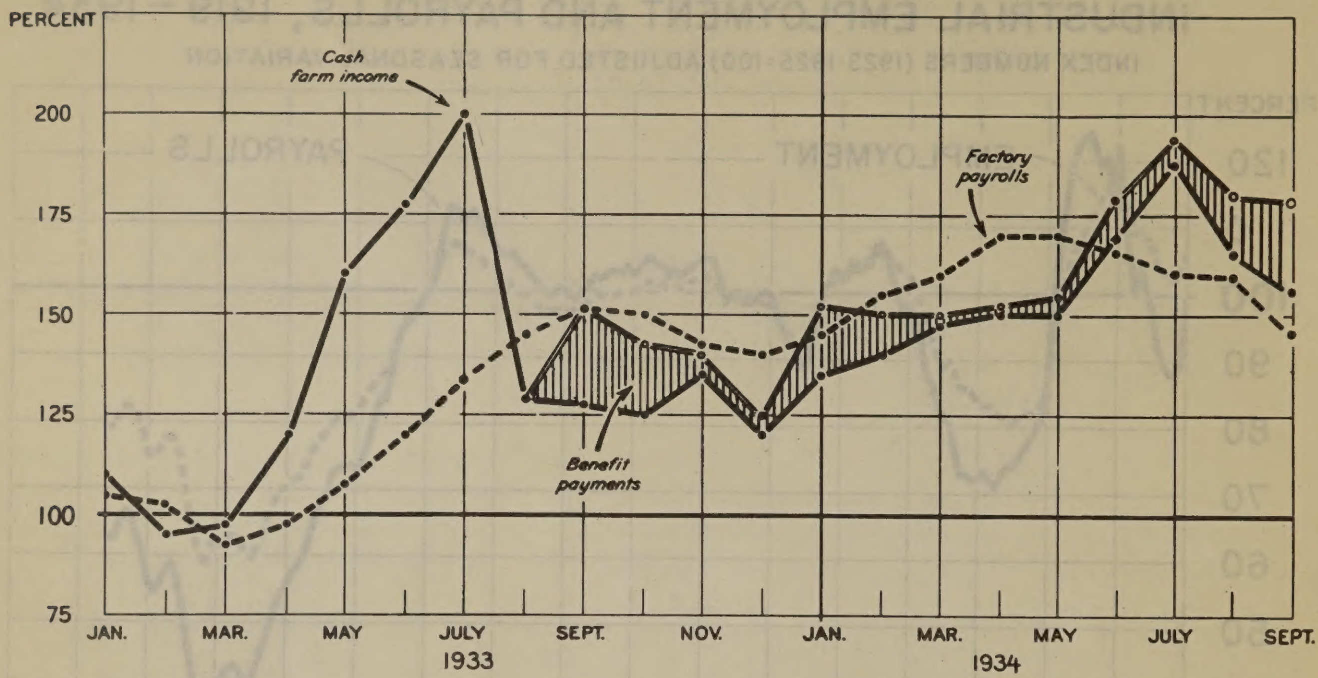
One of the key measures of depression and recovery is the course of factory employment and of payrolls. From the end of 1929 to the end of 1932 factory employment had declined 40 percent and factory payrolls had declined 60 percent. By the summer of 1934 half of the loss in factory employment and about 40 percent of the decline in factory payrolls had been restored.

In 1929 approximately 8 to 9 million wage earners were engaged in United States factories. For each $100 they received in that year they received only $40 at the end of 1932 or a decline in purchasing power of around 60 percent. This loss in consumers' purchasing power was one of the major reasons why farmers producing largely for the domestic markets such goods as dairy products, beef, poultry, and fruits and vegetables, could get only ruinously low prices in 1932.

With the adoption or prospective adoption in March 1933 of several new policies in banking, money, agriculture and industry, general revival commenced. Factory employment increased about one third between the spring of 1933 and the summer of 1934 and factory payrolls increased about 60 percent. Continuation of efforts toward complete revival will tend to reduce remaining unemployment. At present the sustained level of farm income is tending to support the level of business activity, but further industrial progress in 1935 should bring with it a further improvement in agricultural conditions.

FARM INCOME AND FACTORY PAYROLLS SINCE JANUARY 1933

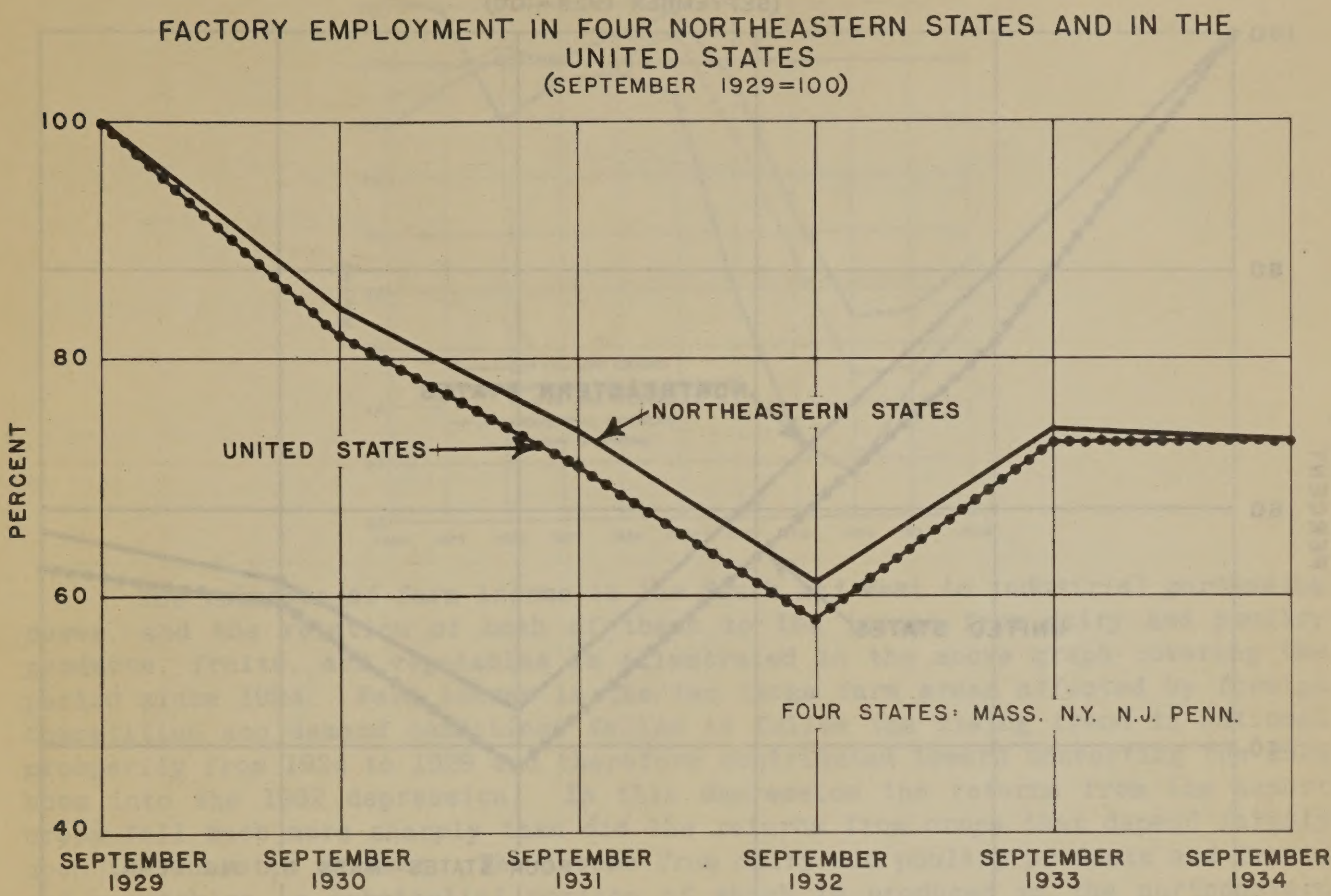
(FIRST QUARTER 1933 = 100)



Farm income during June, July, and August of 1934 was at the highest level reached since the rise which started after the first quarter of 1933, and about 30 percent below the pre-depression (1924-1929) level. Including benefit payments under the Agricultural Adjustment Act, farm income in August 1934 averaged approximately 80 percent above the low level during the first quarter of 1933. Prices paid by farmers on August 15 averaged 25 percent above the level of March, 1933. This indicates that the purchasing power of farm products in exchange for commodities had a net increase of 44 percent.

Much of the advance in farm income has been paralleled by an advance in factory payrolls. During August 1934 factory payrolls were approximately 60 percent higher than in the first quarter of 1933, and city living costs had risen approximately 10 percent, so that the net increase in the purchasing power of factory payrolls was about 45 percent or practically the same as the increase in the purchasing power of cash income from farm marketings.

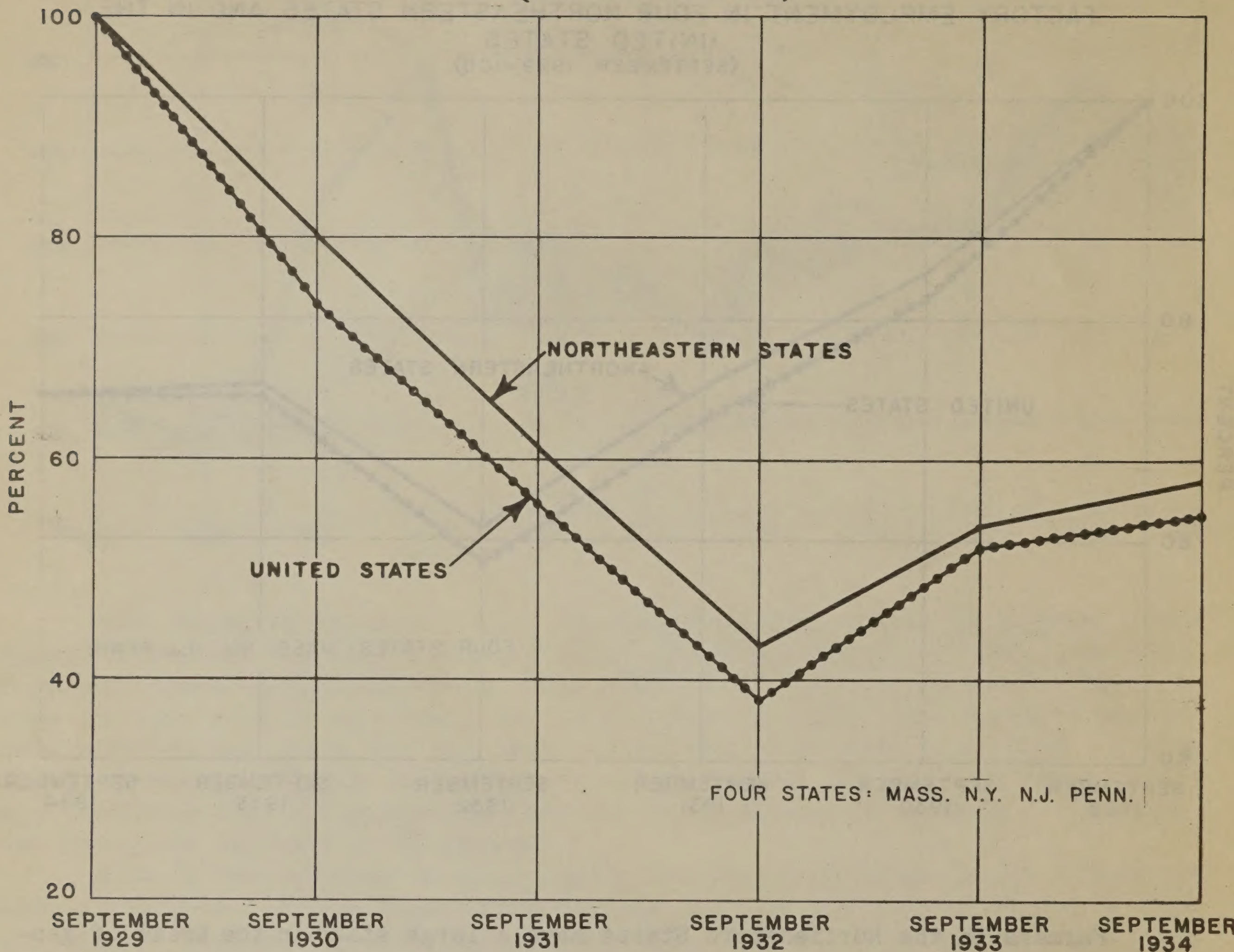
Examining the relation between these two streams of purchasing power from January 1933 to September 1934, it may be observed that farm income rose sharply in the first quarter of 1933 and this rise preceded the rise in factory payrolls. In the last half of 1933, benefit payments added to farm purchasing power cushioned the decline in factory production and buying power derived from payrolls, from the overstimulated levels of the summer of 1933. Following a recovery in industrial production and payrolls during the winter of 1933-34 there was a recession between May and September of 1934, but the larger volume of benefit payments during the fall of 1934 will again cushion the decline in industrial activity and payrolls. During August, farmers received in benefit payments and from the sale of cattle and from option payments, close to 70 million dollars. Somewhat larger payments during September substantially offset the reduction in volume of farm marketing due to smaller 1934 crops, and served to check the declining tendency in factory payrolls. The decline in factory payrolls shown for September is due largely to the textile strike and is therefore temporary.



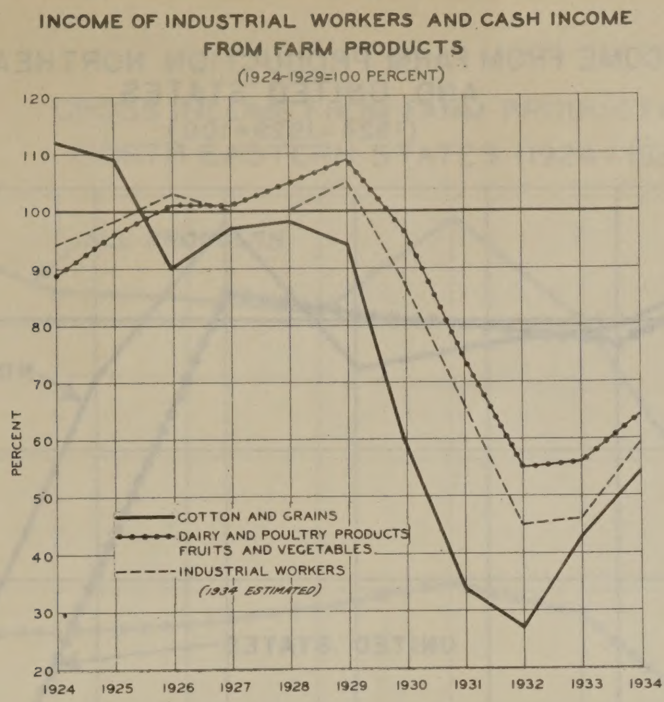
Farmers in the Northeastern States have a large stake in the trend of general business conditions. Their gross returns depend very largely upon the course of consumer incomes both in their own State and throughout the country. Between September 1929 and September 1932 factory employment in the Northeastern States went down step by step with the decline in employment throughout the country, remaining at a level relatively somewhat higher in 1932 than was the level of employment for the country as a whole. The recovery in employment in 1933 and 1934 has been to almost the identical level.

From the above illustration it is possible to see that as general industrial conditions go throughout the country so go the industrial conditions in the Northeastern States. And such factors as tend to stimulate general business conditions, for example the rise in agricultural prices and purchasing power in the surplus-producing areas of the South and West, also bring about improvement in the Eastern States.

FACTORY PAYROLLS IN FOUR NORTHEASTERN STATES AND IN THE UNITED STATES
(SEPTEMBER 1929=100)

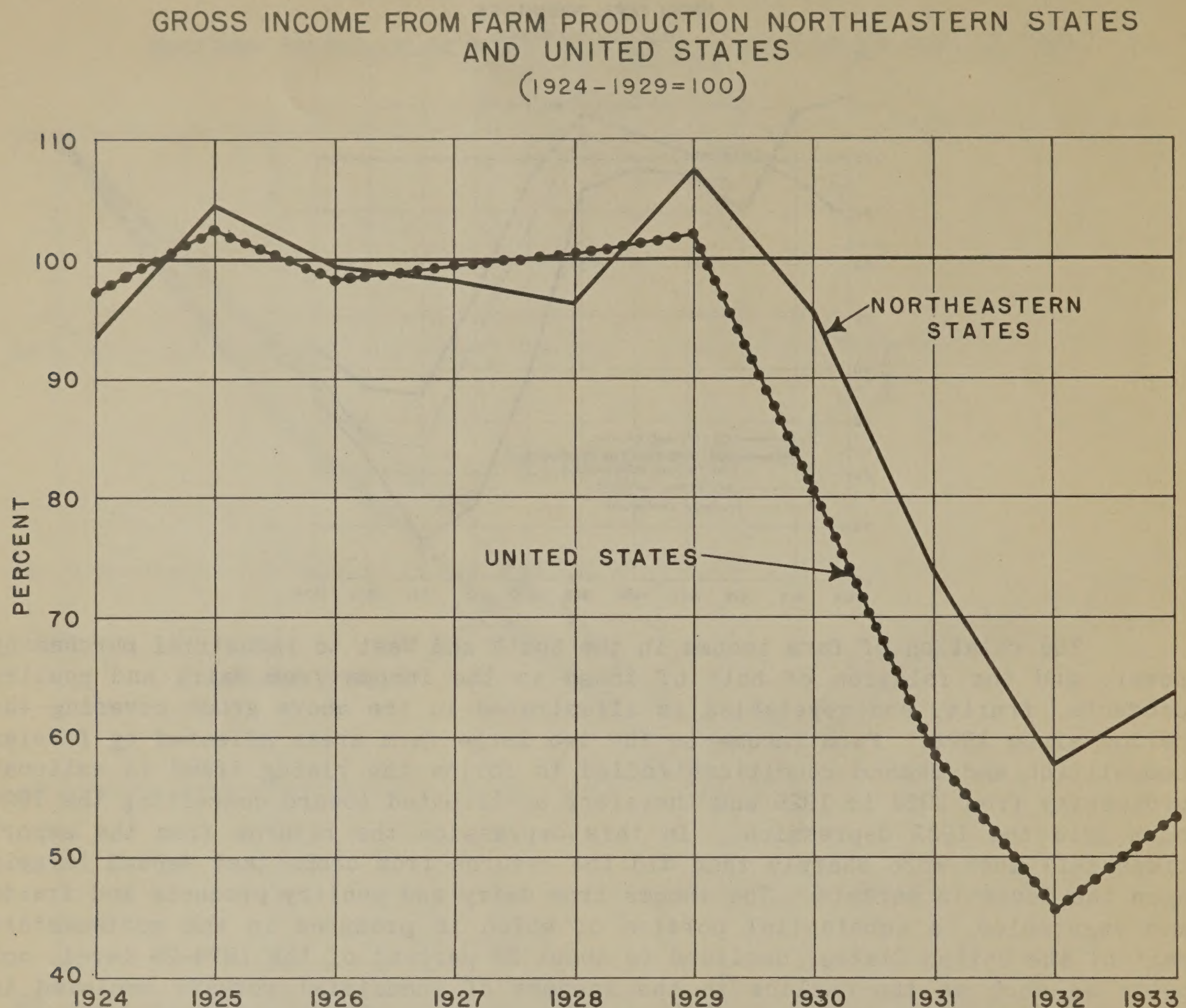


Factory payrolls, the source of purchasing power for a large group of consumers, declined between 1929 and 1932 in the Northeastern States in about the same way that factory payrolls declined throughout the country, but the decline in the Northeastern States was not quite as great as the decline for the entire country. Similarly the level of payrolls in September 1934 was relatively higher than the level of payrolls for the country as a whole. The outstanding fact, however, is the very close parallel between the purchasing power of consumers attached to the factories in the Eastern States as compared with the purchasing power of consumers for the country as a whole.

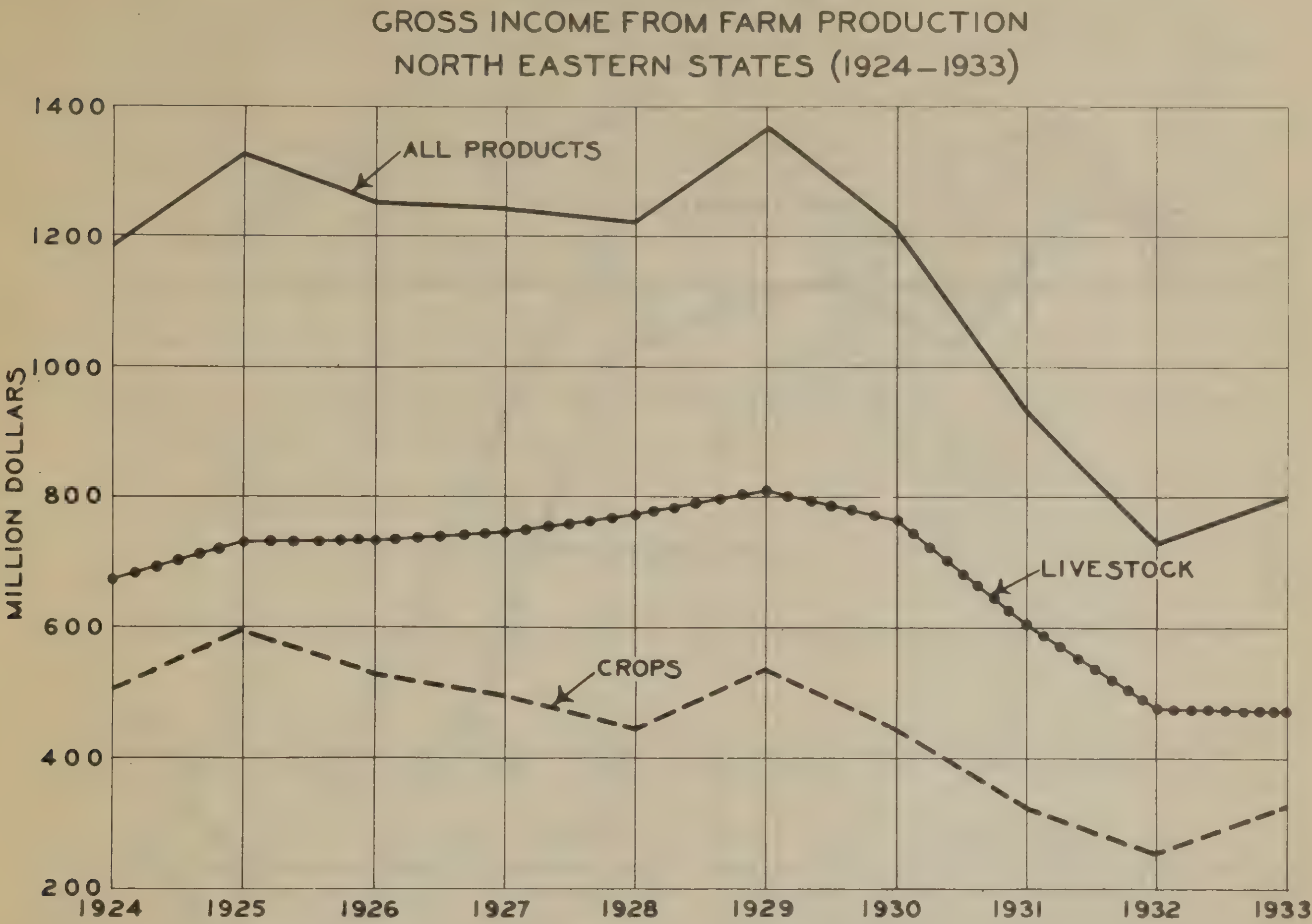


The relation of farm income in the South and West to industrial purchasing power, and the relation of both of these to the income from dairy and poultry products, fruits, and vegetables is illustrated in the above graph covering the period since 1924. Farm income in the two large farm areas affected by foreign competition and demand conditions failed to follow the rising trend in national prosperity from 1924 to 1929 and therefore contributed toward converting the 1929 boom into the 1932 depression. In this depression the returns from the export crops fell much more sharply than did the returns from crops that depend largely upon the domestic markets. The income from dairy and poultry products and fruits and vegetables, a substantial portion of which is produced in the northeastern part of the United States, declined to about 55 percent of the 1924-29 level, not quite as much as the decline in the incomes of industrial workers employed in factories and on the railroads; but the income from cotton and grains declined to less than 30 percent of the 1924-29 level.

Agricultural adjustment in 1933 first undertook to restore the purchasing power of the export commodities in order to support a revival in general business, which might in turn make possible a rise in the incomes from farm products produced largely for domestic markets. Taking 1933 as a whole, farm income from cotton and grains showed a sharp recovery and together with other recovery factors made possible the rise in consumer purchasing power, which, however, averaged in 1933 only slightly above the 1932 level. Because of the close relationship between the money income of consumers and the returns from the production of dairy and poultry products and fruits and vegetables, the latter also failed to show any noticeable increase for the entire year 1933 as compared with 1932. In both cases, the year 1933 showed substantial improvement from the low levels reached in the spring of 1933. By 1934 the general business situation was feeling the stimulus from increased purchasing power in the cotton and grain producing areas. Including benefit payments, income from cotton and grains is expected to average in 1934 about twice as high as in 1932, and the higher level of consumer purchasing power, together with increased returns in areas producing export commodities, is making possible higher returns to producers of commodities largely consumed in domestic markets.

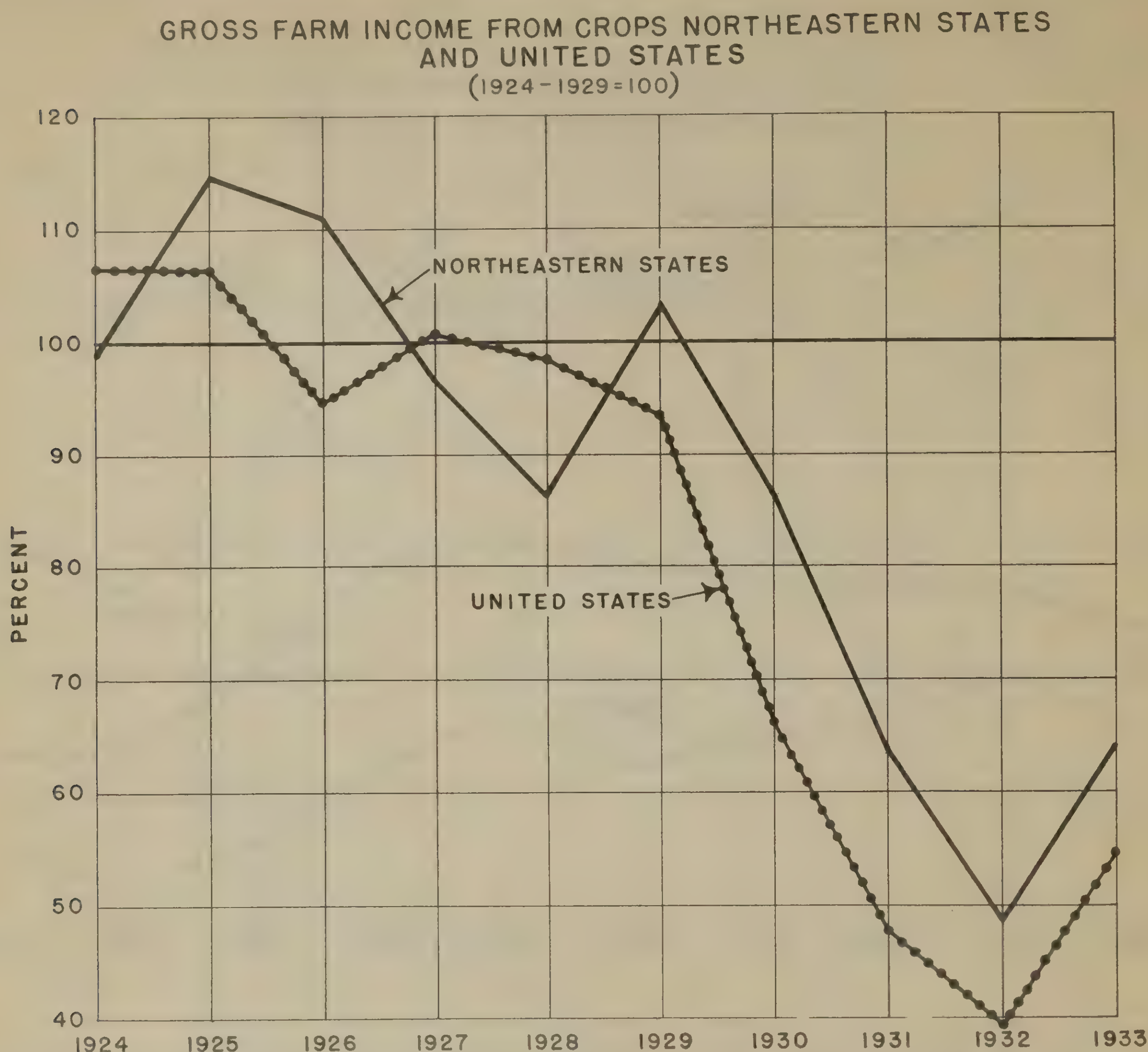


The close relationship between domestic purchasing power in the Northeastern States and in the country as a whole is apparent when gross farm income from farm production in the Northeastern States is compared with that for the country as a whole. Between 1924 and 1929 farm income in both areas remained on a fairly stable level. Farm income in the Northeastern States between 1924 and 1928 was relatively lower than for the country as a whole and in 1925 and 1929 relatively higher than for the United States as a whole. This is probably due to the fact that in 1924 and 1928 the Northeastern States suffered from low prices received for bumper crops, particularly potatoes, and in 1925 and 1929 they were benefited by larger incomes from smaller potato crops. Since 1929 the gross farm returns in Northeastern States have remained on a relatively higher level than the gross farm income for the country as a whole. This is due to several reasons. (1) Consumer incomes did not decline quite so much in the Northeastern States as in the country as a whole. (2) Prices of farm products near the consuming centers of the East did not decline so much as they did in the surplus areas because of the larger proportion of price that is made up of freight and other distribution costs which had remained relatively stable. (3) Because a large proportion of farm income in the Northeastern States is derived from commodities produced for the domestic market.



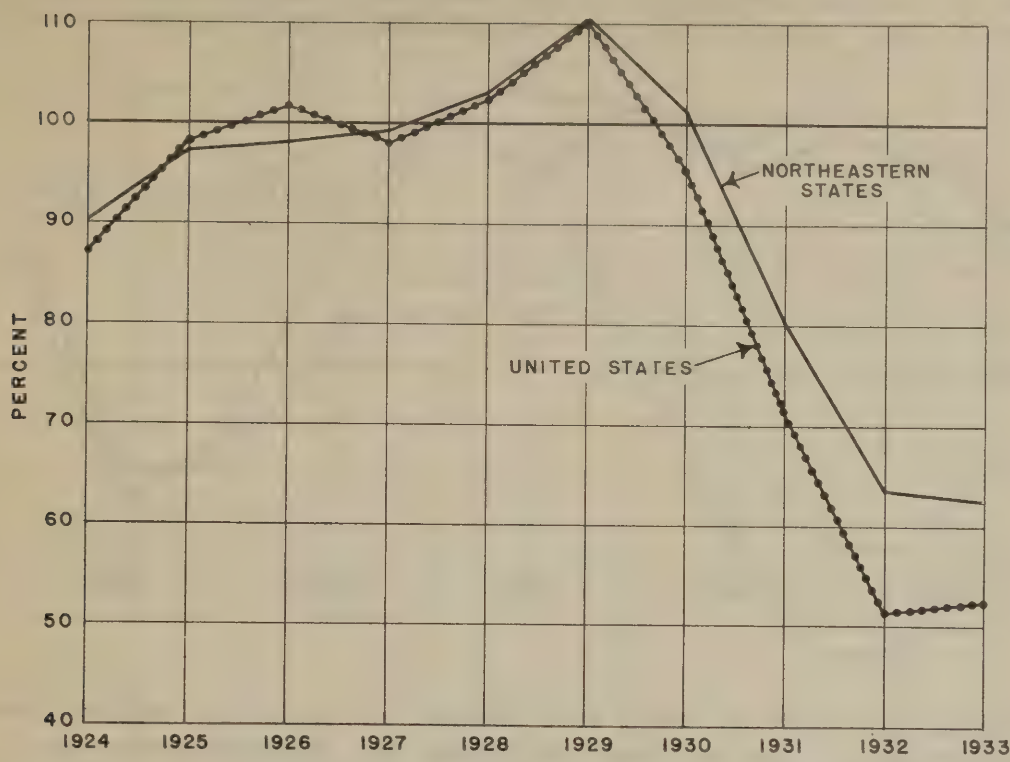
For the country as a whole the gross income from crops has in recent years approximately equaled the gross income from livestock and livestock products, but in the Northeastern States the gross income from livestock and livestock products is considerably greater. Thus in 1924 the gross income from crops was around 500 million dollars whereas the gross income from livestock and livestock products was nearly 700 million dollars. By 1929 the gross income from livestock and livestock products exceeded 800 million dollars but the gross income from crops was only slightly above 500 million dollars, practically the same as in 1924. In 1932 the gross income from crops was only about half of that of the income from livestock and livestock products.

During the predepression years, 1924-1929, there was some downward trends in the gross income from crops in the Northeastern States, contrasted with a rising tendency in the gross income from livestock and livestock products. This illustrates the fact that even in the Northeastern States gross returns from crops were to some extent influenced by the trend in prices and incomes in the surplus-producing areas of the Western States, where declining foreign outlets and increasing foreign competition brought about a declining level of prices and returns from crops, particularly grains.



The declining tendency in the gross income from crops in the Northeastern States during the years 1924-1929 paralleled the declining tendency in gross crop income for the country as a whole, with year-to-year differences due to local conditions. The rather sharp decline in gross income from crops for the country as a whole in 1926 was due largely to the record cotton crop and to lower prices for grains, whereas the relatively greater decline in gross income from crops in the Northeastern States in 1928 was due to the larger potato crops. Similarly the incomes of 1925 and 1929 in the Northeastern States, comparatively high in relation to the trend in gross income from crops in the United States, were due to the smaller potato crops in those years. By 1932 the gross income from crops for the country as a whole had fallen to 40 percent of the 1924-1929 level, whereas the gross income from crops in the Northeastern States had fallen only to 50 percent of the 1924-1929 level. During 1933 the two areas showed a parallel recovery, with Northeastern States maintaining their relative advantage over the rest of the country. Each area apparently shared in the effects of the several policies that were adopted to bring about a higher level of prices and returns, such as the monetary policy, the crop adjustment programs, and the industrial recovery program.

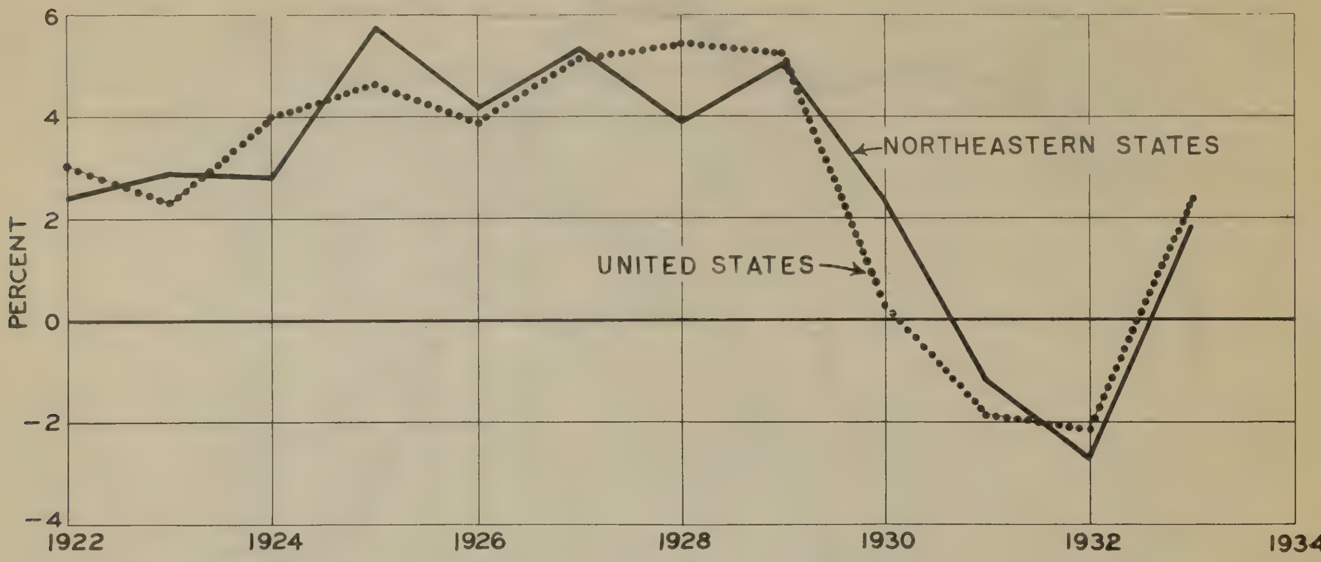
GROSS FARM INCOME FROM LIVESTOCK AND LIVESTOCK PRODUCTS
NORTHEASTERN STATES AND UNITED STATES
(1924-1929=100)



The course of national purchasing power which brought about the upward trend in gross income from livestock and livestock products for the country as a whole during the period 1924-1929 produced a similar upward trend in the same type of income in the Northeastern States; and the contraction in national income between 1929 and 1932 had a similar though somewhat unequal influence in producihg the lower level of farm returns in 1932 and 1933. The relatively higher price for most products, which prevails in the Northeastern States contrasted with the relatively lower price in the surplus-producing areas of the Western States, is reflected in the fact that the decline in the gross income from livestock and livestock products in the Northeast has not been so great as the decline in the gross income from the same products for the country as a whole. Gross farm income from livestock and livestock products fell to nearly half its predepression level in 1932 and livestock income in the Northeastern States fell to about 63 percent of the predepression level.

Failure of this type of income in 1933 to show the improvement appearing in returns from crops, further emphasizes the close interdependence between the livestock incomes in the Northeast and in the country as a whole, and the dependence of both on the general level of consumers' purchasing power. During 1933 no adjustment programs were carried on for livestock except the emergency hog-purchase program of September 1933. The effects of this were not expected to appear until early in 1934. The monetary policy which gave a substantial lift to certain crop prices, particularly those dependent upon international markets and foreign exchange levels had very little effect on the price of commodities produced largely for the domestic markets. Consequently, improvement in income of livestock and livestock products in 1933 could come only through the change in the level of consumers' purchasing power.

FARM RETURNS, UNITED STATES AND NORTHEASTERN STATES
(SHOWN AS RATE EARNED ON CAPITAL AS REWARD FOR CAPITAL AND MANAGEMENT)

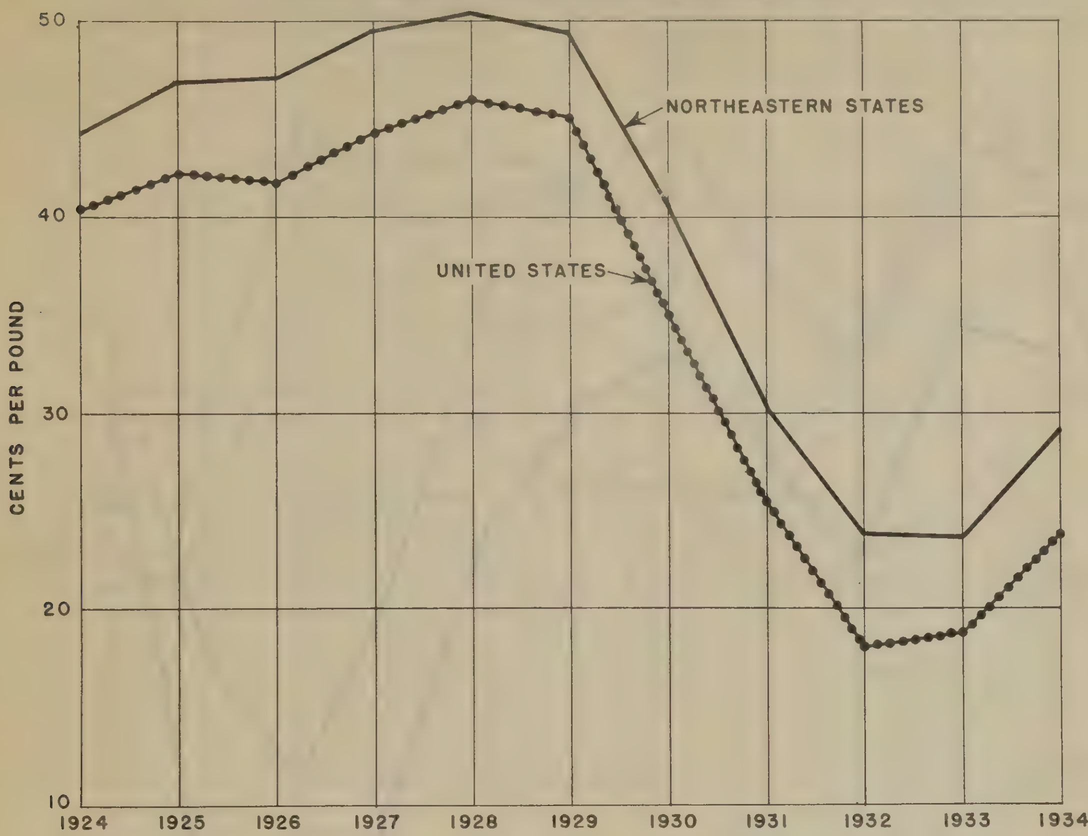


The above illustration deals with changes in the gross returns from agricultural production in the Northeastern States and in the country as a whole. The changes in net returns, after deducting cost of producing the annual farm crops, were indicated by figures supplied by farm owner-operators who report annually to the Department of Agriculture their receipts and expenditures and inventory values. From these reports by farmers themselves it is possible to compute the net results of a year's operations as returns earned on the value of the farm capital for both capital and management employed in producing the annual crops.

For the several thousand owner-operator farmers located throughout the country the average rate of return during the period 1924-1928 ranged between 4 and 5 percent. Returns in the Northeastern States also ranged between 4 and 5 percent, being somewhat more variable, however, because fluctuations in the local production were greater than those in the national production. By 1932 the returns in both the Northeastern States and for the country as a whole fell considerably below cost of production so that they showed a loss of more than 2 percent on the farm capital as compared with a return of about 5 percent in 1929. For the reporting farmers 1933 was already a year of noticeable improvement. Instead of net returns failing to cover production costs they actually exceeded production costs and amounted to a return of about 2 percent for the use of the capital and the farmer's managerial contribution. This showing, however, is partly the result of a shrinkage, between 1929 and 1932, in the value of the farm capital.

FARM PRICES OF BUTTERFAT IN THE NORTHEASTERN STATES AND IN THE UNITED STATES

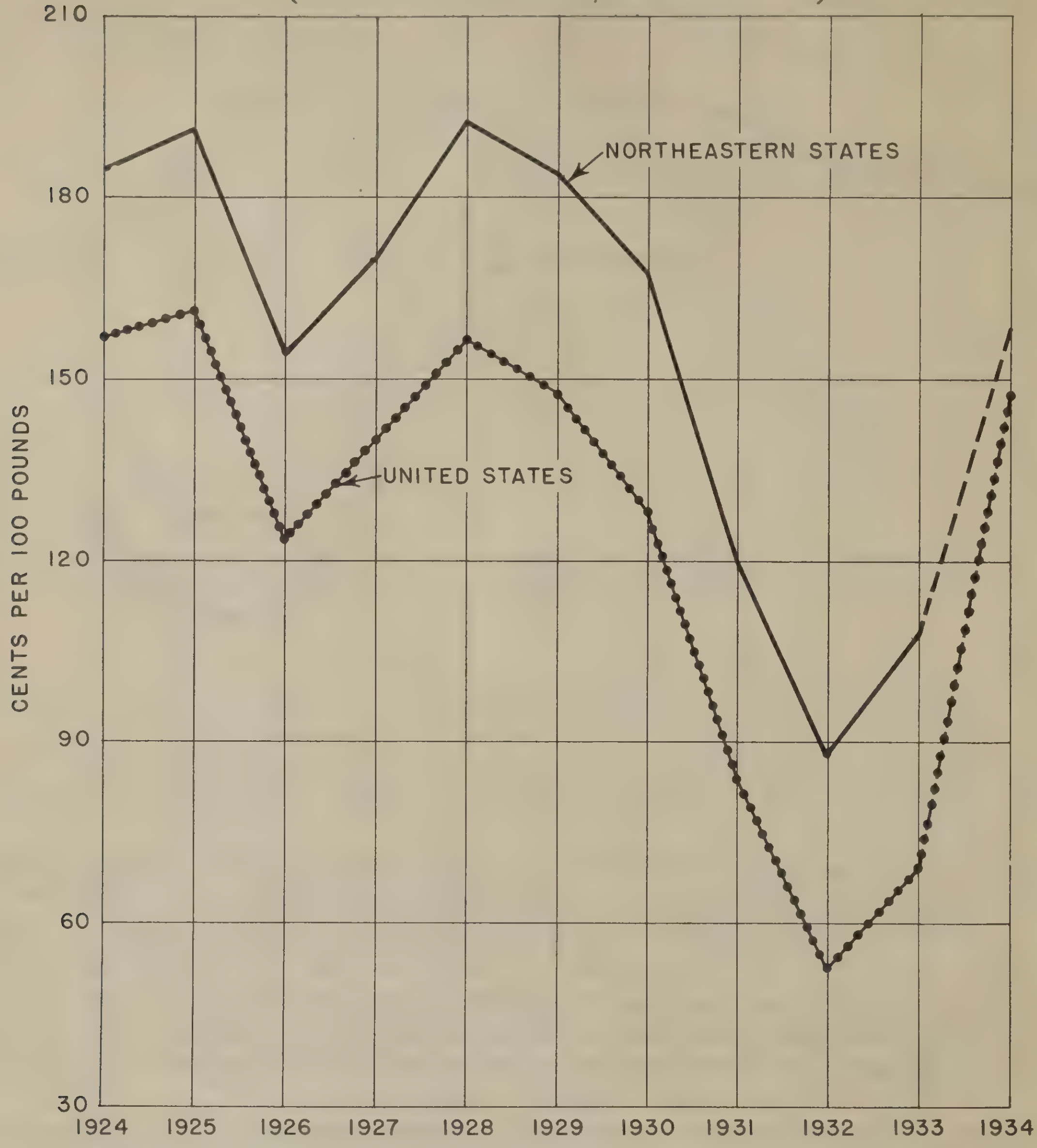
(YEARLY AVERAGES 1924-1933, AND SEPTEMBER 1934)



Insofar as farmers in the Northeast derive some of their income from the sale of butterfat they are subject to practically the same basic factors that determine the level of prosperity for the dairy industry as a whole. Between 1924 and 1932 the course of farm prices of butterfat in the Northeastern States has varied almost exactly as has the butterfat price in the country as a whole. Step by step they advanced from 1924 to 1928; in a similar fashion they declined from 1929 to 1932 and have since risen to the higher levels shown for September 1934.

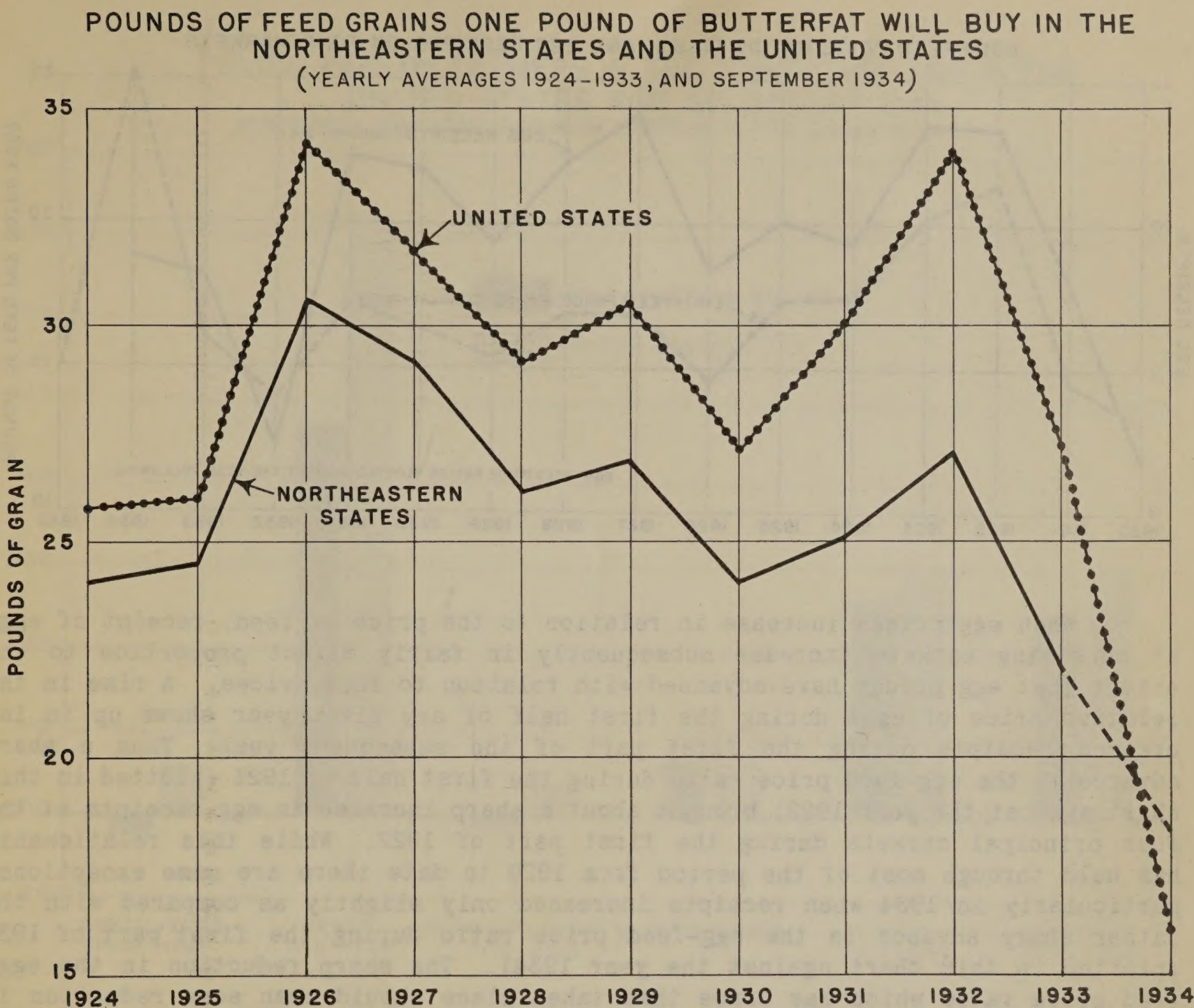
Fluid milk prices show, of course, the same degree of interdependence. Between 1929 and 1932 fluid milk prices in New England declined about 25 percent compared with a decline of about 27 percent for the country as a whole. Fluid milk prices have, of course, not declined as much as the price of butterfat because of the slightly different type of demand for fluid milk and because of the different price policies in distribution of fluid milk and in distribution of manufactured dairy products. Very much the same consumption trends are shown in the Eastern States and in the country as a whole. Between 1923 and 1929 the per capita consumption of milk and cream in cities and villages advanced from 38 gallons to 40.8. In the North Atlantic States the advance was from 42.8 gallons in 1923 to 46.1 gallons in 1929. Between 1929 and 1931 consumption in both areas remained fairly stable, declining moderately, and by 1933 the per capita consumption for the United States had declined to 38.8 or 2 gallons below the consumption of 1929; in the North Atlantic States it had declined to 42.9 gallon or 3.2 gallons below the 1929 figure.

FARM PRICES OF FEED GRAINS IN THE NORTHEASTERN STATES AND IN THE UNITED STATES
(YEARLY AVERAGES 1924-1933, AND SEPTEMBER 1934)



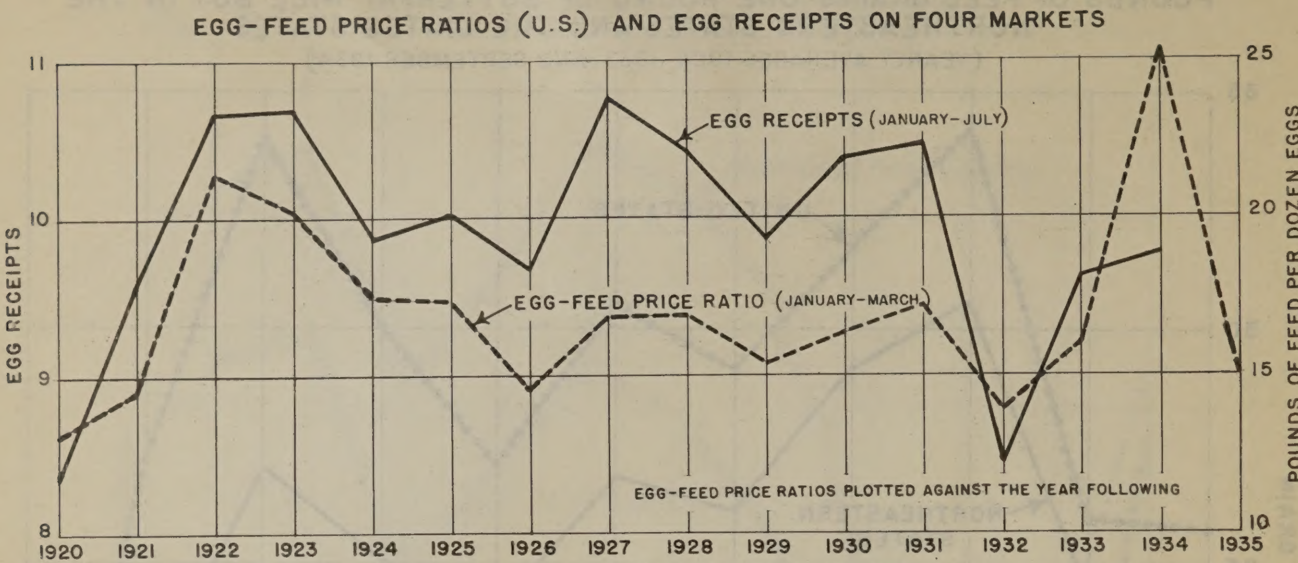
Ordinarily there is a substantial margin between the prices of feed grains in the Northeastern States and in the United States as a whole. This margin represents largely the difference between transportation and other distribution costs in the East and in the West. That margin remained practically uniform throughout the period 1924-1932 but has been somewhat larger in recent years than in earlier years. During the latter part of 1934, however, it was very sharply reduced because the level of prices rose more rapidly in the surplus-producing areas than in the Northeast.

For the country as a whole feed prices in September of 1934 were practically at the level for the year 1929, whereas for the Northeast States the September 1934 prices were approximately a fifth lower. The much higher level of feed grain prices in 1934 as compared with the low level of 1932 is partly the result of the devaluation of the dollar in 1933 and the reduction in supplies caused by the drought in 1934.



From 1924 through 1933 the value of butterfat in exchange for pounds of feed grains has been around 30 pounds of feed grains for one pound of butterfat. In 1926 and 1932 both years of relatively low feed grain prices, one pound of butterfat would buy about 34 pounds of feed grains. . In the Northeastern States, where feed-grain prices are as a rule relatively higher than in the country as a whole, a pound of butterfat was exchanged for 25 pounds of feed grains in recent predepression years but in 1932 this exchange ratio was not quite so favorable as in 1926.

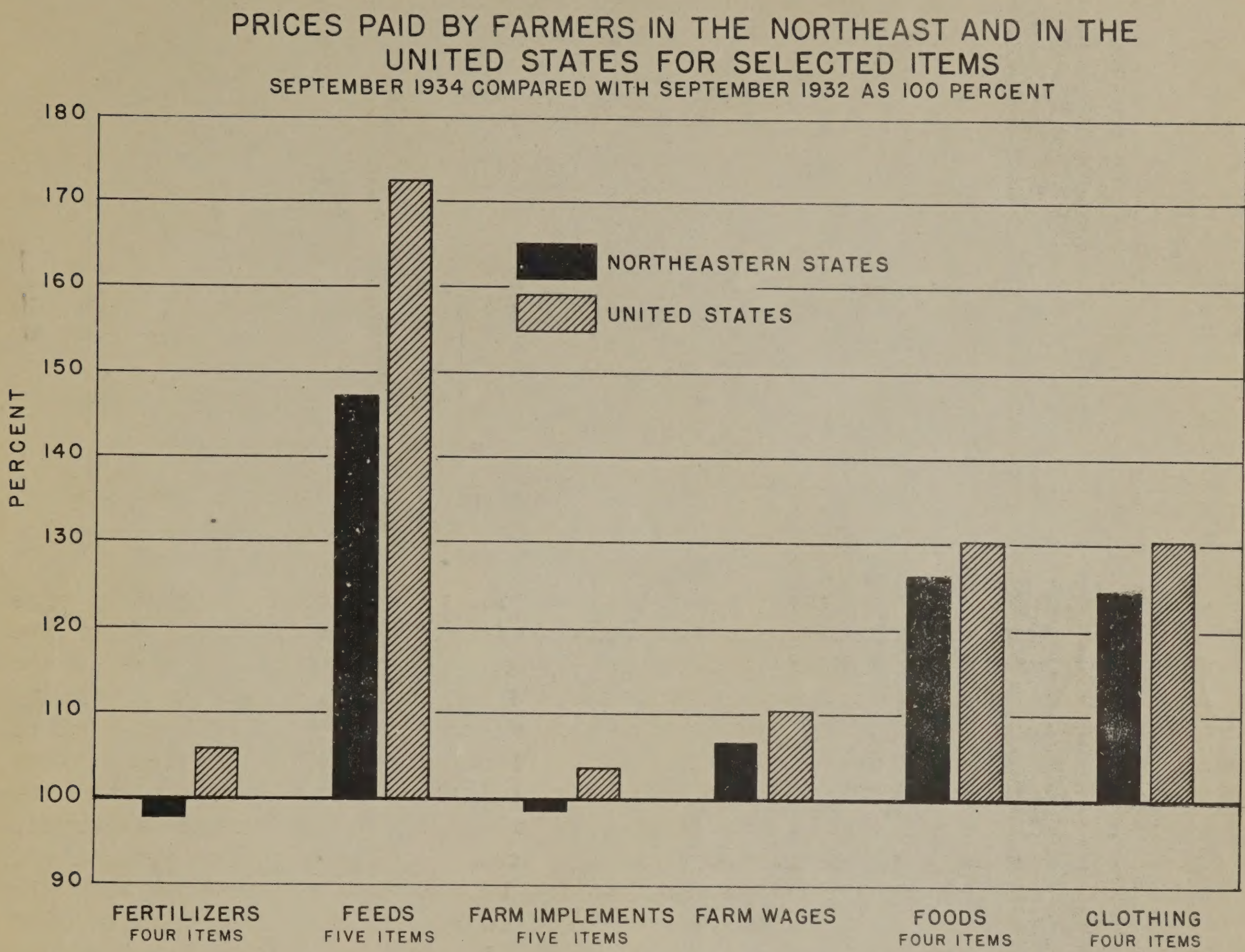
The rise in feed-grain prices for the United States as a whole in 1934, compared with the relatively smaller advance in feed prices in the Northeast, has reversed the usual relationship between butterfat prices (in terms of feed grains) in the Northeastern States and in the United States as a whole, that existed from 1924 through 1933. In September 1934 a pound of butterfat in the Northeastern States had a value in terms of feed grains relatively greater than the comparable value of butterfat on a national basis.



When egg prices increase in relation to the price of feed, receipt of eggs at consuming markets increase subsequently in fairly direct proportion to the extent that egg prices have advanced with relation to feed prices. A rise in the relative price of eggs during the first half of any given year shows up in increased receipts during the first part of the subsequent year. Thus a sharp advance in the egg-feed price ratio during the first half of 1921 (plotted in this chart against the year 1922) brought about a sharp increase in egg receipts at the four principal markets during the first part of 1922. While this relationship has held through most of the period from 1920 to date there are some exceptions, particularly in 1934 when receipts increased only slightly as compared with the rather sharp advance in the egg-feed price ratio during the first part of 1933 (plotted in this chart against the year 1934). The sharp reduction in the egg-feed price ratio which has since then taken place should mean some reduction in the receipt of eggs on the four markets during the first part of 1935, with the result that most eastern egg producers will have less competition from the Western States.

The egg-feed price ratio is expressed as the number of pounds of feed which might be bought by one dozen eggs. If eggs were 30 cents a dozen and feed $3 a hundred pounds, one dozen eggs would buy 10 pounds of feed and the ratio would be shown as 10. Producers determine early each year how many chicks they will buy or hatch and the basis for their decision is the relation of egg prices to feed costs at that time. A larger number of chicks hatched means that the supply the following spring will naturally be maintained in proportion to the number of chicks hatched.

Most of the eggs received at the four principal markets originate on a large number of general farms in the Middlewest where operations increase production when feed is plentiful. The Northeastern commercial producer, near the consuming markets, can increase his net returns from egg production when competion from the Middlewest diminishes.



As is to be expected the rise in prices paid by farmers since the low point of this depression has in general been somewhat smaller than the rise for the country as a whole. Among five groups of commodities purchased by farmers, --fertilizer, feed, farm implements, food and clothing-- the sharpest advance occurred in feeds. In this group the advance between September 1932 and September 1934 has been somewhat more than 70 perdent for the U. S. as a whole, while for the Northeastern States the advance has been about 47 percent. Selected items of food and clothing have advanced about 30 percent in price for the country as a whole but 25 percent in the Northeastern States. Fertilizer and farm implement prices are now slightly higher than they were in 1932 for farm areas as a whole, but in the Northeastern States they are somewhat lower. Farm wages now average about 10 percent higher in all agricultural areas combined and about 7 percent higher in the Northeastern States.